

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 OIC-04 AID-20 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07

SS-20 STR-08 CEA-02 PRS-01 USIA-15 PA-04 SWF-02 IO-14

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R 041320Z JUN 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 3611

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 3929

E.O.11652: N/A

TAGS: ETRD, EAGR, BR

SUBJECT: GUARUJA COFFEE CONFERENCE

REF: STATE A-3485

1. CONGEN SAO PAULO HAS PROVIDED FOLLOWING REPORT ON SUBJECT
CONFERENCE:

INTRODUCTION AND SUMMARY:

A. THE III ANNUAL SEMINAR OF THE SANTOS COFFEE ASSOCIATION, HELD
IN GUARUJA MAY 26-29, WAS ATTENDED BY REPRESENTATIVES OF OVER 200
COMPANIES, ACCOUNTING FOR ABOUT 75 PERCENT OF THE WORLD'S COFFEE
TRADE. THE CENTRAL THEME OF THE CONFERENCE WAS THE DEVELOPMENT
OF THE COFFEE TRADE THROUGH 1980, BUT CORRIDOR CONVERSATION
CENTERED ON PRICE DEVELOPMENTS THIS YEAR, ABOUT WHICH OPINIONS
VARIED WIDELY, AND THE PROSPECTS FOR RENEGOTIATION OF THE ICA,
WHICH WAS VIEWED AS HIGHLY UNLIKELY THIS YEAR.

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B. IBC PRESIDENT CAMILO CALAZANS DE MAGALHAES OPENED THE MEETINGS WITH A BLAND, LOW-KEY PRESENTATION OF THE BRAZILIAN POSITION WHICH SIGNALLED BRAZIL'S WILLINGNESS TO ENTER INTO NEGOTIATIONS LOOKING TOWARD A NEW ICA BUT AT THE SAME TIME THE GOB'S CONTINUED INTENTION TO WORK JOINTLY WITH OTHER PRODUCERS IN DEFENSE OF CURRENT PRICE LEVELS. CALAZANS TERMED COFFEE THE COMMODITY IN WORLD TRADE WHICH "HAD THE BEST CHARACTERISTICS TO SERVE AS A MODEL FOR AN INTERNATIONAL AGREEMENT OF COOPERATION BETWEEN PRODUCERS AND CONSUMERS." HE NOTED THAT "FINALLY, AFTER LONG YEARS OF OVER PRODUCTION, DURING WHICH BRAZIL CARRIED THE BURDEN MOST OF THE TIME TO PROTECT THE MARKET, THROUGH THE ACCUMULATION OF BIG STOCKS, AT THIS MOMENT EVERYTHING POINTS TOWARD A RELATIVE EQUILIBRIUM OF FORCES BETWEEN SUPPLY AND DEMAND" AND CONCLUDED THAT A NEW AGREEMENT "COULD GIVE CERTAIN GUARANTEES TO CONSUMERS FOR A NORMAL FLOW OF COFFEE SUPPLIES, WHILE GIVING A GUARANTEE TO PRODUCERS THAT PRICES WOULD NOT DETERIORATE". (COMMENT: NONE OF THE DELEGATES WITH WHOM CONGEN OFFICERS TALKED INFORMALLY HELD OUT MUCH HOPE THAT AGREEMENT COULD BE REACHED BETWEEN PRODUCERS AND CONSUMERS UNDER CURRENT CIRCUMSTANCES. THE PRODOMINANT VIEW, AS EXPRESSED BY JOHN LANKESTER OF FOLGERS, WAS THAT BRAZIL AND OTHER PRODUCERS WOULD PUSH FOR A NEW AGREEMENT BUT THAT AFTER PERHAPS PROLONGED NEGOTIATIONS IT WOULD BECOME CLEAR THAT NO AGREEMENT WAS POSSIBLE. SIMILAR VIEWS EXPRESSED BY REPS OF SEVERAL EUROPEAN COMPANIES. ONE US COMPANY REP, GEORGE MCEVOY OF J. ARON AND CO., PRIVATELY EXPRESSED CONCERN, HOWEVER, THAT EUROPEAN GOVERNMENTS, WHILE HAVING COMMON INTERESTS WITH US, WOULD ADOPT MORE FLEXIBLE POSITIONS LEAVING US TO BEAR THE BURDEN ON THE CONSUMER SIDE OF FAILURE TO REACH AGREEMENT).

C. CALAZANS ALSO REITERATED THE VIEW THAT THE IBC SHOULD NOT INTERVENE AS ACTIVELY AS IN PAST IN MARKETING PROCESS, GIVING GREATER IMPORTANCE TO THE PRIVATE SECTOR, AND THAT THE IBC SHOULD ESTABLISH RULES AND REGULATIONS WHICH WOULD NOT BE SUBJECT TO CONSTANT CHANGE, THUS GIVING BUYERS AND SELLERS GREATER STABILITY IN TERMS OF TRADING REGULATIONS OVER LONGER PERIODS OF TIME. DESPITE THESE OBJECTIVES, HE SAID THAT BECAUSE OF CHANGED INTERNATIONAL MARKETING SITUATION, THE IBC HAD HAD TO REVISE INTERNAL MEASURES WITH THE OBJECTIVES OF "REESTABLISHING CONDITIONS FOR BRAZILIAN COFFEE TO BE SOLD AGAIN IN WORLD MARKETS". AS A LIMITED OFFICIAL USE

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RESULT, CALZANS ANNOUNCED THAT THE IBC WOULD GRANT A DISCOUNT "OF MAXIMUM 8 CENTS PER POUND FOR SALES AS OF MAY 15...WHICH COULD PERIODICALLY BE READJUSTED, ALWAYS DOWNWARD, MARKETING CONDITIONS PERMITTING...UP TO THE END OF JULY". THIS DISCOUNT WAS ALSO EXTENDED TO ALL THOSE WHO HAD ACQUIRED BRAZILIAN COFFEE BEFORE MAY 15 FOR SHIPMENT DURING THE MONTHS OF MAY, JUNE AND JULY. (COMMENT: REFERENCE TO 8 CENTS PER POUND DISCOUNT CONTAINED IN OFFICIAL TEXT OF CALAZAN'S SPEECH BEING POUCHED TO

DEPARTMENT.DURING SPEECH CALAZANS REFERRED TO 9 CENTS PER POUND DISCOUNT. IN INTERESTING SIDELIGHT, FOLLOWING SPEECH IBC TECHNICIANS WENT TO GREAT LENGTHS TO ASSURE JOURNALISTS PRESENT THAT REFERENCE TO 9 CENTS WAS ONLY HYPOTHETICAL AND THAT THEY SHOULD REPORT IN TERMS OF 8 CENTS FIGURE CONTAINED IN OFFICIAL TEXT.ONE KNOWLEDGEABLE BRAZILIAN TRADER SUBSEQUENTLY TOLD CONGEN OFFICERS HE FORESAW POSSIBILITY OF DISCOUNT RISING TO 10 DENTS PER POUND, PERHAPS IN JULY, DEPENDING ON LEVEL OF CONTRIBUTION QUOTA AND MARKETING SITUATION AT THAT TIME.)

D. CALAZANS ESTIMATED THAT 1974/75 BRAZILIAN CROP WOULD BE BETWEEN 24AND 25 MILLION BAGS. (COMMENT: ACCORDING TO MOST REIALE TRADE SOURCES, THIS IS A CONSERVATIVE ESTIMATE. CURRENT PROJECTIONS OF BRAZIL CROP, ASSUMING NO FROST OR UNUSUALLY HEAVY RAINS DURING NEXT TWO MONTHS,RUN BETWEEN 25.5 AND 27 MILLION BAGS. UNLIKE THE 1973/74 CROP, THE QUALITY OF THIS YEAR'S HARVEST IS EXPECTED TO BE VERY GOOD).

E. IN RELATED AREA, THERE WAS CONSIDERABLE INFORMAL DISCUSSION ABOUT REPORTS OF RECENT FOREIGN INTERVENTION IN "OTHER VILDS" MARKET IN NEW YORK. NATIONAL COFFEE ASSOCIATION PRESIDENT GEORGE BOECKLIN WAS ASKED FROM FLOOR DURING MAY 28 SESSION WHAT REPERCUSSIONS THERE WOULD BE IN US FROM SUCH INTERVENTION. BOECKLIN WAS CAREFUL TO NOTE THAT FOREIGN INTERVENTION WAS FOR PRESENT ONLY ALLEGED BUT HE MADE IT CLEAR THAT A CONSPIRACY TO AFFECT FREE TRADING IN THE COMMODITIES MARKET WAS NOT ONLY QUESTIONABLE FROM A LEGAL POINT OF VIEW BUT WAS ALSO MOST ILL CONSIDERED BECAUSE THE US CONGRESS IS PRESENTLY CONSIDERING LEGISLATION TO CONTROL TIGHTLY TRADE IN COMMODITY FUTURES, AN ESSENTIAL ELEMENT FOR THE COFFEE TRADE.

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F. DISCUSSION OF FUTURE CONSUMPTION TRENDS IN US AND EUROPEAN MARKETS IN THE PERIOD TO 1980 REVEALED CONTINUED DIVERGENCE IN FACTORS OPEATING IN BOTH MARKETS. DETAILED COUNTRY-BY-COUNTRY PRESENTATION BY FRANCOIS LE CHEVALIER OF JACQUES LOUIS DELAMARE PROJECTED THAT OVERALL CONSUMPTION IN EUROPE WOULD INCREASE FROM THE 1973 LEVEL OF 30.4 MILLION BAGS OF GREEN COFFEE FOR EUROPE AS A WHOLE, (INCLUDING THE SOCIALIST COUNTRIES) TO 38 MILLION BAGS IN 1980, WITH VARIABLE RATES OF GROWTH IN DIFFERENT COUNTRIES. BY CONTRAST, BOECKLIN STATED THAT COFFEE CONSUMPTION IN THE US MAY CONTINUE TO DECLINE, BUT AT AN EVER-DECREASING RATE, SO THAT POPULATION

GROWTH WILL OFFSET PER CAPITA DECLINE WITH THE RESULT THAT US WILL CONTINUE TO CONSUME COFFEE AT ABOUT THE SAME RATE OF APPROXIMATELY 20 MILLION BAGS PER YEAR - GREEN EQUIVALENT. BOTH AGREED THAT SOLUBLE (AND IN THE CASE OF US, DECAFINATED AS WELL) WOULD HAVE INCREASING SHARE OF OVERALL COFFEE MARKET. IN THE CASE OF EUROPE, SOLUBLE CONSUMPTION EXPECTED TO GROW FROM 4.1 MILLION BAGS 1972/73 TO 6.3 MILLION BAGS IN 1980.

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G. PRESENTATION BY ICO EXECUTIVE DIRECTOR ALEXANDRE BELTRAO WAS CAUTIOUS BALANCING ACT BETWEEN INTEREST OF PRODUCERS AND CONSUMERS WITH FOCUS ON NEED TO STRENGTHEN ICO. IN TERMS OF OVERALL TRENDS, BELTRAO STATED THAT IN 1973,74 CROP YEAR, 75 MILLION BAGS HAD ENTERED TRADE, WITH TOTAL CONSUMPTION OF 76.5 MILLION BAGS AND ENDING STOCKS OF 32 MILLION BAGS, 5 MILLION IN CONSUMING COUNTRIES AND 27 MILLION IN PRODUCING COUNTRIES. HE CAREFULLY AVOIDED ANY SPECULATION ABOUT FUTURE DEVELOPMENTS.

H. CLOSING PRESENTATION BY BRAZILIAN MINISTER OF INDUSTRY AND COMMERCE SEVERO GOMES WAS NOT NOTEWORTHY EXCEPT THAT HE GAVE RELATIVELY LESS PROMINENCE TO NEED FOR NEW AGREEMENT AND GREATER STRESS ON NEED TO ASSURE ADEQUATE RETURN TO GROWERS. HE STOUTLY DEFENDED CREATION OF CAFEMONDIAL AS ESSENTIAL TO GOVE POORER PRODUCING NATIONS SOME MEASURE OF EQUALITY IN DEALING WITH LARGE COMPANIES IN CONSUMER COUNTRIES.

I. IN THE OPINION OF SEVERAL US COFFEE COMPANY REPRESENTATIVES, THE NEW BRAZILIAN ADMINISTRATION IS IN AN UNCOMFORTABLE POSITION ON COFFEE. BRAZILIAN SALES IN RECENT MONTHS HAVE NOT BEEN IMPRESSIVE AND THE US TRADER CHARACTERIZED THE MOOD OF MANY BRAZILIAN COFFEE DEALERS AS VERY BEARISH. SUPPORT FOR THE PRICE STRUCTURE OF "OTHER MILDS" AND THE NEW DISCOUNT POLICY ON BRAZILIAN EXPORTS ARE SEEN AS ESSENTIAL IF BRAZIL IS TO ACHIEVE ANYTHING LIKE ITS EARLIER AVOWED HOPES OF REALIZING \$1.6 BILLION FOREIGN EXCHANGE FROM COFFEE SALES DURING THE CALENDAR YEAR.
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